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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

FEB 20 2013

BOB STUMP- Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
MORENCI WATER AND ELECTRIC COMPANY
FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. E-01049A-11-0300

IN THE MATTER OF THE APPLICATION OF
MORENCI WATER AND ELECTRIC COMPANY
FOR THE ESTABLISHMENT OF JUST AND
REASONABLE RATES FOR ITS WATER
DEPARTMENT.

DOCKET NO. W-01049A-11-0311

DECISION NO. 73737OPINION AND ORDER

DATE OF HEARING:

November 28, 2012

PLACE OF HEARING:

Tucson, Arizona

ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

APPEARANCES:

Jason D. Gellman, ROSKA DEWULF & PATTEN,
PLC, on behalf of Morenci Water and Electric
Company; and

Robin Mitchell, Staff Attorney, Legal Division, on
behalf of the Arizona Corporation Commission Utilities
Division.

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the
Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT**Procedural History**

1. Morenci Water and Electric Company ("MWE" or "Company") is certificated to
provide water and electric service mostly in Greenlee County, Arizona in and around the towns of
Morenci and Clifton.

2. On July 29, 2011, MWE filed an Application to establish new rates for both its Water

1 and Electric Divisions (Docket No. E-01049A-11-0300).

2 3. On August 3, 2011, MWE filed a Notice of Errata that corrected its proposed rate
3 structure for its Water Division.

4 4. On August 8, 2011, MWE filed a separate Application requesting new rates for its
5 Water Division (Docket No. W-01049A-11-0311), in order to clarify that the Company was seeking
6 rates for the Water Division as well as the Electric Division.

7 5. On August 9, 2011, MWE filed a Motion to Consolidate the two dockets.

8 6. On September 27, 2011, in both dockets, MWE filed a letter to request an extension of
9 time to determine the sufficiency of the two rate applications. MWE asserted that it requested the
10 extension in order to provide the Commission's Utilities Division ("Staff") with additional
11 information.

12 7. On October 6, 2011, MWE filed an Amendment to its Application, submitting revised
13 schedules for both its Water and Electric Divisions.

14 8. On November 21, 2011, Staff filed a Request for Procedural Schedule which
15 requested approval of a jointly proposed procedural schedule.

16 9. By Procedural Order dated November 30, 2011, the dockets were consolidated and a
17 procedural schedule was established, with a hearing set for August 20, 2012.

18 10. On January 10, 2012, Staff filed a Motion to Suspend the Time Clock because MWE
19 had not been able to respond to Staff's data requests in a timely manner which impacted Staff's
20 ability to conduct its review and analysis.

21 11. By Procedural Order dated January 18, 2012, a new procedural schedule was
22 established with the hearing continued until November 28, 2012, and the deadline for a final order
23 pursuant to A.A.C. R14-2-103 extended until February 28, 2013.

24 12. On May 11, 2012, MWE filed an affidavit of mailing and affidavit of publication
25 indicating that MWE had the Notice of the hearing published in *The Copper Era* on March 28, 2012,
26 and that it mailed the Notice to its customers as bill inserts in the March 2012 billing cycle.

27 13. On June 20, 2012, MWE filed Supplemental Direct Testimony of Dan Neidlinger,
28 addressing a proposed revision to the Company's Purchased Power and Fuel Adjustor Clause

1 (“PPFAC”) for the Electric Division.

2 14. On July 17, 2012, MWE filed proposed Cross-Connection and Curtailment Tariffs.

3 15. On July 27, 2012, Staff filed the Direct Testimonies (Except Rate Design and Cost of
4 Service) of Crystal Brown, Margaret Little, Jian Liu and Julie McNeely-Kirwin.

5 16. On August 10, 2012, Staff filed a Motion to Extend Time to file the Rate Design
6 Testimony, which was granted by Procedural Order dated August 17, 2012.

7 17. On August 16, 2012, Staff filed the Rate Design and Cost of Service Direct
8 Testimonies of Ms. McNeely-Kirwin and D. Bentley Erdwurm.

9 18. On September 24, 2012, MWE filed the Rebuttal Testimonies of Roy Archer and Mr.
10 Neidlinger.

11 19. On October 24, 2012, Staff filed the Surrebuttal Testimonies of Ms. McNeely-Kirwin,
12 Mr. Liu and Mr. Erdwurm.

13 20. On November 16, 2012, MWE filed the Rejoinder Testimonies of Mr. Archer and Mr.
14 Niedlinger.

15 21. The hearing convened as scheduled on November 28, 2012, before a duly authorized
16 Administrative Law Judge.

17 22. On January 4, 2013, MWE filed a Plan of Administration (“POA”) for its proposed
18 PPFAC. Staff has reviewed the POA and the Company states that it incorporated Staff’s comments in
19 the filed version.

20 **Background**

21 23. MWE has been providing electric and water service since the late nineteenth century.
22 The Company was incorporated in the Territory of Arizona on October 17, 1898, to provide support
23 for mining activities and the development of a town site around those activities. Currently, MWE is
24 owned by Freeport McMoRan Copper & Gold, Inc. (“Freeport McMoRan”).

25 24. MWE’s current electric and water base rates were set in Decision No. 54712 (October
26 10, 1985).

27 25. MWE states that the primary reasons for filing its rate application are to recover
28 increased operating expenses and to comply with a Commission order that required the Company to

1 file a rate case for the Electric Division.¹ The Company stated that it has been losing money from its
 2 water operations and decided to include water rates with the required electric rate application, which
 3 in addition to recognizing increased operating costs would facilitate the Commission's ability to
 4 confirm the proper allocation of shared costs among the divisions.²

5 26. Staff reviewed the Commission's records for the period January 1, 2009, through July
 6 6, 2012, and found no complaints. In addition, Staff reports that there are currently no delinquent
 7 Commission compliance issues for MWE.

8 27. The Company-proposed, and Staff's recommended, an adjusted Original Cost Rate
 9 Base ("OCRB") for the Company as a whole as follows:

	<u>Per Company</u>	<u>Difference</u>	<u>Per Staff</u>
Morenci Electric	\$19,992,153	\$0	\$19,992,153
Morenci Water	3,294,872	\$0	3,294,872
Clifton Water	<u>585,414</u>	<u>\$0</u>	<u>585,414</u>
Total	\$23,872,439	\$0	\$23,872,439

13 28. MWE did not provide Reconstruction Cost New Rate Base schedules and requested
 14 that its OCRB be considered as its Fair Value Rate Base ("FVRB").

15 29. In the test year ended December 31, 2010, on a Company-wide basis, MWE's
 16 operating income was as follows:³

Test Year	Morenci	Morenci	Clifton	Company
	<u>Electric</u>	<u>Water</u>	<u>Water</u>	<u>Total</u>
Revenues	\$73,632,080	\$ 607,570	\$196,004	\$74,435,654
Expenses	<u>\$72,489,651</u>	<u>\$1,124,668</u>	<u>\$292,182</u>	<u>\$73,906,501</u>
Operating Income	\$1,142,429	\$(517,098)	\$(96,178)	529,153
Return on FVRB	5.7%	N/A	N/A	2.22%

22 30. MWE's test year operations resulted in adjusted operating revenues of \$529,153, an
 23 overall 2.22 percent rate of return on the Company's aggregate FVRB of \$23,872,439.⁴

24 31. As discussed in greater detail below, MWE proposed the following revenue increases

26 ¹ See Decision No. 71468 (January 26, 2010) and Decision No. 72291 (May 4, 2011)(extended the date to file a rate case
 until July 29, 2011).

27 ² Ex A-1 Archer Dir at 4.

28 ³ Ex S-4 Brown Dir at CSB-3, CSB-5. The Company accepted Staff's recommended adjustments to test year revenues
 and expenses.

⁴ See Ex S-4 Brown Dir at CSB-5.

which represent an aggregate increase of \$271,156, or 0.36 percent, over adjusted test year revenue of \$74,435,654:

	<u>Current Revenue</u>	<u>MWE Proposed Revenue⁵</u>	<u>\$ Increase</u>	<u>% Increase</u>
Morenci Electric	\$73,632,080	\$73,644,818	\$12,738	0.02%
Morenci Water	607,570	800,939	193,369	31.83%
Clifton Water	<u>96,004</u>	<u>261,053</u>	<u>65,049</u>	<u>33.19%</u>
Total/Overall	\$74,435,654	\$74,706,810	\$271,156	0.36%

Electric Division Rate Application

Electric Division Operations

32. MWE provides electric service to approximately 2,336 customers, of which 2,068 are residential customers. MWE also provides electric service to mining operations in Morenci in Greenlee County, and Safford in Graham County. Over 98 percent of MWE's electric sales revenue comes from mining operations. MWE provides service to the mining operations pursuant to two separate electric service agreements, which the Commission approved in Decision Nos. 66937 (April 21, 2004) and 69200 (December 21, 2006). The mining operations are owned and operated by Freeport McMoRan, and account for 98 percent of MWE's load.

33. The average number of service connections, including all classes of customers, increased from 1,940 in 2001 to 2,336 in 2010, which is an average increase of 2.27 percent per year. The Company has stated that the number of customers has fluctuated over the years depending on employment at the mines, and that there has been no real growth in customers since 1985. All of the residences in Morenci belong to Freeport McMoRan and are leased to mine employees. The town of Clifton has experienced little growth over the past ten years.

34. MWE has no generating capacity of its own and purchases all of its power needs from its affiliate, Freeport McMoRan Energy Services ("McMoRan ES"), and from Tucson Electric Power Company. McMoRan ES provides power to MWE at market-based rates as an Exempt Wholesale Generator as defined by the Federal Energy Regulatory Commission ("FERC").

35. The MWE electric system has a high load factor compared to the typical rural

⁵ At the final phase for the Water Division.

1 distribution utility. Because the mines require a relatively consistent amount of power around the
2 clock, and 98 percent of the Company's load is due to the mines, the total system load factor for 2005
3 to 2010 was 83 percent. Staff states that this characteristic enables MWE to purchase power at a
4 lower cost than it would pay if the system load factor was more typical, which is around 50 percent.⁶

5 36. Staff concluded that MWE is operating and maintaining its electrical system properly;
6 is carrying out system improvements, upgrades and new additions to meet the current and projected
7 load in an efficient and reliable manner; and that the improvements, system upgrades and new
8 construction are reasonable and appropriate. Staff further concluded that MWE's Electric Division
9 has an acceptable level of system losses, consistent with industry guidelines and a satisfactory record
10 of service interruptions.

11 **Electric Division Rate Request**

12 37. According to MWE, in the test year, the Company's Electric Division earned total
13 operating income of \$1,142,429, on total revenues of \$73,632,080, for a 5.71 percent rate of return on
14 a rate base of \$19,992,153.⁷ For its residential, non-mining customers, MWE incurred an operating
15 loss of \$422,905, a negative 10.54 percent return on a rate base of \$4,019,679. As a result of its
16 mining operations, the Company earned operating income of \$1,565,334, a 9.80 percent rate of return
17 on a rate base of \$15,972,474.⁸

18 38. MWE reported an OCRB for the Electric Division of \$19,992,153. Staff made no
19 adjustments to the Electric Division OCRB. Thus, we find that the FVRB for MWE's Electric
20 Division is \$19,992,153.

21 39. MWE's Electric Division had test year revenues of \$73,632,080. Staff adjusted the test
22 year revenues for the Electric Division by reclassifying revenues in order to match the Base Cost of
23 Power ("BCOP") Revenue to the Company-proposed base cost of power and to eliminate PPFAC
24 revenues from operating revenues.⁹ Staff states that it is appropriate not to include PPFAC revenues
25 in base rate revenues because the PPFAC revenues are set using a different mechanism than base
26

27 ⁶ Ex S-1 Little Dir at 6.

⁷ See Application at 3.

⁸ See Application at 3.

28 ⁹ Ex S-4 Brown Dir at 6 and 9.

1 rates, and can change outside of a rate case based on the over or under collections in the Company's
2 fuel banks.¹⁰ Staff's adjustments did not alter total revenues.¹¹

3 40. Staff's adjustments to the test year revenue for the Electric Division are reasonable
4 and appropriate under typical rate case procedures. The Company did not object to Staff's
5 adjustments.

6 41. The Company reported test year expenses totaling \$72,489,651 for its Electric
7 Division. Staff did not make any adjustments to test year expenses.

8 42. Thus, based on the foregoing, we find that in the test year, MWE's Electric Division
9 experienced operating income of \$1,142,429 on total revenues of \$73,632,080, a 5.71 percent rate of
10 return on FVRB.

11 43. For its Electric Division, MWE proposed a \$12,738, or .02 percent, revenue increase
12 from \$73,632,080 to \$73,644,818. The proposed revenue increase would produce operating income
13 of \$1,155,168, for a 5.8 percent rate of return on an FVRB of \$19,992,153. MWE proposed no
14 overall rate increase for the residential and small commercial customers of its Electric Division, and
15 to keep the two approved electric service agreements in place to serve mining operations.

16 44. We find that the requested revenue increase is supported by the evidence and is fair
17 and reasonable.

18 45. MWE's current base cost of power is \$0.07522 per kilowatt-hour ("kWh"), and was
19 set in Decision No. 54714. MWE proposed to change its base cost of power to \$0.05000 per kWh.
20 Based on its review, Staff concurs that the Company's proposed base cost of power is reasonable.¹²

21 46. The difference between the base cost of power included in base rates and actual
22 purchased power costs is recovered through MWE's PPFAC. In recent years, MWE has experienced
23 wide swings in the PPFAC bank balance. Currently its PPFAC rate is -\$0.03449 per kWh.¹³ At the
24 time of the hearing, MWE's PPFAC bank balance was under-collected by approximately \$300,000.¹⁴

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26 ¹⁰ Ex S-4 Brown Dir at 8.

27 ¹¹ Ex S-4 Brown Dir at CSB-3.

¹² Ex S-7 McNeely-Kirwin at 2.

¹³ Per Decision No. 73261 (July 30, 2012). The Commission issued Decision No. 73261 after the Company filed its rate applications. At the time the Company filed its rate application, its PPFAC rate was -0.05100 per kWh. See Application at 3.

28 ¹⁴ Transcript of the November 28, 2012 Hearing ("Tr.") at 43-45 and 103; Ex A-8.

1 47. In this case, the parties propose to freeze the under-collected PPFAC bank balance
2 and to recover that amount from ratepayers over approximately 24 months by means of a PPFAC
3 surcharge of \$0.00451 per kWh.¹⁵

4 48. MWE's current PPFAC requires that the Company file an application with the
5 Commission to adjust its PPFAC rate when its projected PPFAC bank balance is projected to reach a
6 threshold of \$200,000 over-collected or \$500,000 under-collected.¹⁶ In order to provide for more
7 timely changes to the PPFAC adjustor and eliminate large swings in the under/over-collected
8 balances, MWE proposed a revised procedure for recovering purchased power costs through its
9 PPFAC.¹⁷ MWE proposed to reset the PPFAC every six months on an automatic basis, without
10 Commission approval, but subject to Staff review. Under the Company's proposal, the resets would
11 be implemented on June 1 and December 1 each year, and would incorporate a true-up and a forward
12 component. MWE would file its application in Docket Control and provide Staff with detailed
13 calculations supporting the adjustor resets on April 15th and October 15th of each year. The rates
14 would go into effect on June 1 and December 1, unless suspended by the Commission. The Company
15 proposed an overall cap equal to 1.25 percent of its proposed base cost of \$0.05000, which means
16 that the PPFAC rate could not be increased by more than \$0.01250, without Commission approval.¹⁸

17 49. Staff agrees that the potential benefits of the Company's proposed revised PPFAC
18 methodology would include the more timely return of over-collected balances and an increased
19 chance of avoiding large under-collected balances.¹⁹ Staff proposed, however, that instead of the cap
20 as proposed by MWE, there be a cap on increases of \$0.00400 every six months. Staff's cap would
21 not apply to decreases, and MWE would be able to decrease the PPFAC rate to a level to
22 appropriately address over-collections. Staff's proposed cap would allow an increase of \$2.42 on an
23 average Residential bill of \$51.57, or approximately 4.68 percent, every six months. Staff believes
24 that its proposed cap would limit rate shock, but also allow MWE flexibility over time.

25 50. Staff also recommends that when MWE makes its PPFAC filing, that it include bill

26 _____
27 ¹⁵ Tr. at 103. Ex A-8.

¹⁶ See Decision No. 73261.

¹⁷ Ex A-5 Neidlinger Supplement Dir at 2-3.

¹⁸ Ex A-5 Neidlinger Supp at 3.

¹⁹ Ex S-8 McNeely-Kirwin Rate Dir at 9.

impacts on residential customers of any proposed increase or decrease in the PPFAC rate.²⁰ Staff also recommends that Staff should retain the ability to bring resets to the PPFAC rate before the Commission outside of the twice-yearly automatic process based on new information or in the event that issues arise with respect to the PPFAC rate. In addition, under the new methodology, MWE would be able to file for increases greater than allowed by the cap, but such increases would require Commission review and approval and would not be a part of the automatic process.

51. Staff further recommended that MWE file a proposed Plan of Administration ("POA") for Staff review and Commission approval, including, but not limited to, definitions, procedural details, types of allowable costs, schedules and reporting requirements, for its PPFAC in this docket as a compliance item, within 90 days after the completion of the current rate case.²¹

52. The Company accepted Staff's modifications to its proposed PPFAC methodology.²² The Company presented a POA to Staff for its review and filed a copy of the Staff-reviewed PPFAC POA on January 4, 2013. A copy of the POA is attached hereto as Exhibit A, and incorporated herein by reference.

53. Staff's recommendations concerning the proposed modifications to the PPFAC methodology are reasonable and should be adopted.

54. The Company's current and Company-proposed and Staff-recommended rates for the Electric Division are as follows:

	<u>Current Rate</u>	<u>Proposed Rate</u>
Residential:		
Basic Service Charge	\$5.50	\$5.50
Base Cost of Purchased Power per kWh	\$0.07522	\$0.05000
Distribution Cost per kWh	\$0.02628	\$0.02628
Small Commercial:		
Basic Service Charge	\$5.50	\$5.50
Base Cost of Purchased Power per kWh	\$0.07522	\$0.05000
Distribution Cost per kWh	\$0.02628	\$0.02628
Large Commercial (>60,000 kWh per yr):		
Basic Service Charge	\$5.50	\$35.00
Base Cost of Purchased Power per kWh	\$0.07522	\$0.07522
Distribution Cost per kWh	\$0.02628	\$0.02628

²⁰ Ex S-8 McNeely-Kirwin Rate Dir at 10.

²¹ Ex S-8 McNeely-Kirwin Rate Dir at 10-11.

²² Ex A-6 Neidlinger Reb at 2.

	<u>Service Charges:</u>	<u>Current Rate</u>	<u>Company Proposed</u>	<u>Staff Recommended</u> ²³
1	Establishment of Service:			
2	Regular Hours	\$60.00	\$60.00	\$40.00
3	After Hours	\$60.00	\$60.00	\$40.00
4	Re-Establishment of Service:			
5	Monthly Minimum times	\$16.50	\$16.50	\$16.50
6	months discounted			
7	(minimum 3 months)			
8	Re-connection of Service:			
9	Regular Hours	\$10.00	\$30.00	\$30.00
10	After Hours	\$10.00	\$50.00	\$50.00
11	Charge for moving meter at	Cost	Cost	Cost
12	customer request			
13	Customer Requested Meter	Cost	Cost	Cost
14	Test (if Meter Accurate)			
15	Customer Requested Re-Read	\$10.00	\$25.00	\$25.00
16	(if correct)			
17	NSF Check	\$10.00	\$25.00	\$25.00
18	Late Charge	1.5% per month	1.5% per month	1.5% per month
19	Deposit Requirement	Per Rule	Per Rule	Per Rule
20	Interest on Customer Deposits	6%	2%	2%

55. Currently, MWE has only two rate classes: Residential and Commercial, with mining customers served pursuant to special contracts. MWE proposes to create a new Large Commercial customer class for commercial customers using over 60,000 kWh per year. Currently, there would be 36 customers in this class.

56. Under the proposed rates and test year consumption level, revenue from non-contract customers would increase by 0.51 percent, with no increase for Residential or Small Commercial customers, but an overall 1.33 percent annual increase for Large Commercial customers.

57. Staff believes that the Company's proposed rates for its Electric Division are reasonable, but Staff recommends a reduction in the charge for Establishing Service.²⁴ Staff believes the proposed \$60 establishment charge is out of line with other utilities and is not reasonable. The Company agreed with Staff's recommended changes to the Establishment Charge.²⁵

58. Based on the evidence, we find that MWE's PPFAC should be re-set at negative

²³ Ex S-8 McNeely-Kirwin Dir at 3; Ex S-9 McNeely-Kirwin Surr at 2.

²⁴ Ex S-4 Brown Dir at 11; Ex S-8 McNeely-Kirwin Rate Dir at 3.

²⁵ Ex A-7 Neidlinger Rj at 4.

1 \$0.00927.²⁶ The POA attached as Exhibit A describes how the PPFAC will function on going-
2 forward basis. The filed Plan comports with the recommendations and testimony in this docket and
3 should be approved.

4 59. We agree with the parties that the current under-collected PPFAC bank balance should
5 be frozen and that a PPFAC surcharge of \$0.00451 per kWh should be implemented to collect the
6 under-collected amounts. The PPFAC surcharge shall remain in effect until the frozen under-
7 collected balance is eliminated, and then the surcharge shall automatically terminate without further
8 Commission action. In its monthly PPFAC reports filed with the Commission, MWE shall provide
9 updates of the frozen bank balance.

10 60. The proposed rates, (including the new PPFAC of -\$0.00927 and PPFAC bank
11 balance surcharge of \$0.00451) will result in an increase of \$2.73, from \$45.97 to \$48.70, or 5.93
12 percent, for the average residential customer using 604 kwh per month.²⁷

13 61. We find that the rates for MWE's Electric Division as proposed by the Company, and
14 modified by Staff, are just and reasonable, except that the rate for Establishment of Service (After
15 Hours) should be \$50, which is in-line with the "after hours" charge for Re-establishment and reflects
16 the added cost to the Company of providing after-hours service at the customer's request.

17 62. MWE's Line Extension Policy allows residential customers up to 100 feet of free
18 footage, while non-residential customers receive no free footage. For customers whose extensions
19 exceed the allowable free footage, after taking the free footage into account, MWE considers the
20 estimated cost of construction, and the estimated operating revenues and operating expenses in order
21 to determine the required advance. Any part of the advance paid by the customer not refunded after
22 five years is considered a Contribution in Aid of Construction and is no longer refundable. MWE
23 expects little growth in its service territory and has not proposed any changes to its Line Extension
24 Policy. Staff agrees that MWE's current Line Extension Policy is appropriate.²⁸

25 63. MWE's Service Line and Meter Advance Policy is similar to the Line Extension
26 Policy: 100 feet for residential customers and no allowance for non-residential customers. Customers

27 ²⁶ Ex A-8.

28 ²⁷ Ex A-8. The PPFAC surcharge will terminate when the under-collected balance has been eliminated.

²⁸ Ex S-8 McNeely-Kirwin Rate Dir. at 6.

1 pay for any excess beyond the free footage as a Contribution in Aid of Construction. There is a \$50
2 advance that is refundable at 10 percent of the annual net revenues from the meter, applied as a credit
3 to the customer's November bill each year until fully paid. MWE is not proposing any substantive
4 changes to its Service Line and Meter Advance policy for its Electric Division. Staff did not object.²⁹

5 64. In Decision No. 73090 (April 5, 2012), the Commission approved an Energy
6 Efficiency Implementation Plan ("EE Plan") for MWE for 2012-2013. MWE's EE Plan includes an
7 Appliance Recycling Program, a Compact Fluorescent Lamp Program and Low-Income
8 Weatherization Program. The Commission approved a tariff that includes a per-kWh Energy
9 Efficiency ("EE") surcharge of \$0.000245 per kWh for all MWE residential and non-mining non-
10 residential customers, and a monthly charge of \$650 for customers with demand in excess of 3 MW
11 per month.

12 65. Staff recommends that an EE adjustor mechanism, to recover the prudently incurred
13 costs of MWE's EE programs in a timely basis, be established for MWE in this rate case.³⁰ Staff
14 recommends that MWE's EE Surcharge Schedule tariff become an adjustor mechanism, with the
15 initial adjustor rates being the same as the rates in the tariff approved in Decision No. 73090. Staff
16 states that the EE adjustor rates would then be set in connection with the EE Implementation Plans
17 filed by MWE and approved by the Commission, or as otherwise ordered by the Commission. Staff
18 also recommends that an EE bank balance be established and any over-collections or under-
19 collections for EE costs should be tracked in the EE bank balance and reported in each
20 Implementation Plan filed by MWE.³¹

21 66. Staff's recommendations concerning converting the EE tariff to an EE adjustor
22 mechanism are consistent with how such costs are tracked and recovered for other utilities and will
23 ease the administration of the EE Implementation Plan. We find the recommendation to be
24 reasonable and adopt it.

25 67. In Decision No. 72893 (February 17, 2012), the Commission approved the 2012
26 portion of MWE's 2012-2013 Renewable Energy Standard Tariff ("REST") Implementation Plan.

27 ²⁹ Ex S-8 McNeely-Kirwin Rate Dir at 6.

28 ³⁰ Ex S-7 McNeely-Kirwin Dir at 3.

³¹ Ex S-7 McNeely-Kirwin Dir at 3; Ex S-9 McNeely-Kirwin Surr at 2.

68. MWE currently has a Renewable Energy Standard Surcharge (“RESS”) tariff. Staff recommends that the RESS tariff become an adjustor mechanism. The adjustor rates and caps would be the same as those in the RESS tariff, most recently approved in Decision No. 72893. Staff states that subsequent charges to the RESS adjustor rates and caps would be set in connection with the annual REST Implementation Plan filed by MWE and approved by the Commission, or as otherwise ordered by the Commission.³²

69. Staff’s recommended modification of the RESS tariff to an adjustor mechanism is consistent with recovery methodologies approved for other utilities, and will ease the implementation of REST programs and cost recovery. We adopt Staff’s recommendation.

Water Division Rate Application

Water Division Operations

70. MWE’s current water rates were approved in Decision No. 54712.

71. MWE provides water service to approximately 1,915 customers. MWE operates two separate water systems—one for its Morenci town site, serving approximately 1,280 customers, and one serving the Town of Clifton, with approximately 635 customers. MWE has not experienced significant growth in the number of water customers since it filed its last rate case in 1983.

72. The Morenci system utilizes surface water from Eagle Creek which is pumped into holding tanks where it undergoes treatment.³³ The Clifton system pumps groundwater utilizing two wells, each with a capacity of 450 gallons per minute. There is one gravity flow interconnection between the systems that allows the Morenci system to feed into the Clifton system (which is located downhill).

73. The Arizona Department of Environmental Quality (“ADEQ”) has determined that both of MWE’s systems are currently delivering water that meets the water quality standards of A.A.C., Title 18, Chapter 2.

74. Neither water system is located within an Arizona Department of Water Resources (“ADWR”) Active Management Area (“AMA”) and they are not subject to any AMA reporting or

³² Ex S-7 McNeely-Kirwin Dir at 4.

³³ Tr. at 24.

1 conservation requirements.

2 75. ADWR reports that the Company is in compliance with departmental requirements
3 governing water providers and/or community water systems.

4 76. Staff concludes that MWE's water systems have adequate production and storage
5 capacities to serve the existing customers and reasonable growth.

6 77. There are no Commission delinquent compliance issues.

7 78. The Company does not have any approved Best Management Practice ("BMP")
8 tariffs.³⁴ Staff originally recommended that MWE file with Docket Control, as a compliance item in
9 this docket, within 90 days of the effective date of this Decision, at least five BMPs in the form of
10 tariffs that substantially conform to the template created by Staff for Commission review and
11 consideration; and that the Company may request cost recovery of actual costs associated with the
12 BMPs implemented in its next general rate application.

13 79. The Company agreed to implement three BMPs as follows: BMP 3.6-Customer High-
14 Use Water Use Inquiry Resolution Tariff; BMP 3.7-Customer High-Use Water Use Notification
15 Tariff; and BMP 5.2-Water System Tamper Tariff. The Company objected to adopting two
16 additional BMPs because of the expense.³⁵ At the hearing, Staff agreed with the Company's position
17 that three BMPs would be appropriate in this case, and that the three selected by MWE are
18 acceptable.³⁶

19 80. MWE proposed retaining separate rates for its Morenci and Clifton water operation
20 and to phase-in the water rates over three years. Staff concurred with having different rates for the
21 Morenci and Clifton systems and supports a phase-in of the rates in order to mitigate the rate

22 ³⁴ In 2008, ADWR added a new regulatory program for the ADWR Third Management Plan for AMAs. The new
23 program, called Modified Non-Per Capita Conservation Program ("Modified NPCCP"), addresses large municipal water
24 providers (cities, towns and private water companies serving more than 250 acre-feet per year) and was developed in
25 conjunction with stakeholders from all AMAs. Participation in the program is required for all large municipal water
26 providers that do not have a Designation of Assured Water Supply and that are not regulated as a large untreated water
27 provider or an institutional provider. The Modified NPCCP is a performance-based program that requires participating
28 providers to implement water conservation measures that result in water use efficiency in their service areas. A water
provider regulated under the program must implement a required Public Education Program and choose one or more
additional BMPs based on its size, as defined by its total number of water service connections. The provider must select
the additional BMPs from the list included in the Modified NPCCP Program. The BMPs are a mix of technical, policy,
and information conservation efforts. Although the implementation of the Modified NPCCP is required of large
municipal water providers within an AMA, the Commission has previously adopted the BMPs for implementation by
Commission-regulated small and large water companies.

³⁵ Ex A-2 Archer Reb at 3. Ex A-3 Archer Rej at 1.

³⁶ Tr. at 17, 54, and 59.

1 impact.³⁷

2 81. In addition to the recommendations above and the rate recommendations discussed
3 below, Staff recommends:

- 4 (a) That MWE use Staff's recommended depreciation rates by individual National
5 Association of Regulatory Utility Commissioners category as delineated in
6 Table B of Exhibit JWL in the direct testimony of Jian Liu;³⁸
- 7 (b) That MWE be required to provide separate water use data sheets for the
8 Morenci and Clifton systems in future Commission Annual Reports beginning
9 with the 2013 Annual Report filed in 2014; that the Company monitor the
10 gallons pumped and sold in order to determine the non-account water for each
11 of its water systems; that if the reported annual water loss is greater than 10
12 percent, the Company prepare a report containing a detailed analysis and plan
13 to reduce water loss to 10 percent or less; and that if the Company believes it is
14 not cost effective to reduce the water loss to less than 10 percent, it should
15 submit a detailed cost/benefit analysis to support its opinion; and
- 16 (c) That the Cross-Connection or Backflow and Curtailment Tariffs filed by MWE
17 on July 17, 2012, and attached to Jian Liu's direct testimony as Exhibit A, be
18 approved.³⁹

19 82. There is no evidence that there is a water supply shortage in MWE's service area.⁴⁰
20 We believe adopting BMP tariffs can provide benefits to the Company and its ratepayers. Under the
21 circumstances of this case, we find that the three BMP tariffs that the Company has agreed to
22 implement are a reasonable and appropriate response to encourage conservation. As discussed later,
23 the rate design for the water systems will be a major departure from the current rate structure and is
24 likely to have measureable impact on water usage. We do not believe that additional water
25 conservation measures are warranted immediately. The Company may track the costs associated with
26 the BMP tariffs that it has agreed to implement and may seek to recover those costs in its next rate
27 case. In addition, we find that Staff's recommendations concerning depreciation rates and water use
28 data sheets to be reasonable and that they should be adopted. Finally, we approve the Backflow and
29 Curtailment tariffs the Company filed on July 17, 2012.

30 ...

31 ...

32 ³⁷ Ex S-5 Erdwurm Dir at 2.

33 ³⁸ Ex S-3 Liu Dir at 4.

34 ³⁹ Ex S-2, Liu Dir.

35 ⁴⁰ Tr at 26.

1 **Morenci System - Rates**

2 83. In its Application, MWE reported an OCRB of \$3,294,872 for the Morenci system.
3 Staff made no rate base adjustments. The Company requested that its OCRB be treated as its FVRB.
4 Thus, we find that the Morenci Water System has a FVRB of \$3,294,872.

5 84. The Company posted test year revenues of \$607,570 for its Morenci system. Staff did
6 not make any adjustments to Morenci's test year revenues.

7 85. The Company reported test year operating expenses of \$1,085,415 for its Morenci
8 Water System, resulting in a test year operating loss of \$477,845. Staff made three adjustments to
9 operating expenses, which had the net effect of increasing test year expenses by \$39,253, to
10 \$1,124,668, resulting in an operating loss of the test year of \$517,098. Specifically, Staff increased
11 Morenci Water's water testing expenses by \$6,203 to reflect Staff's estimate of water testing expense
12 (the Company did not include a water testing expense); increased property tax expense by \$582 based
13 on Staff's recommended revenues; and decreased income tax expense by \$32,467 (reducing the
14 negative income tax expense) to reflect the income tax obligation on Staff's adjusted test year taxable
15 income.

16 86. The Company did not object to Staff's adjustments. We agree that they are
17 appropriate. Thus, we find that in the test year, the Morenci system experienced an operating loss of
18 \$517,098 on total revenues of \$607,570 for no return on FVRB.

19 87. For the Morenci water system, MWE proposed a revenue increase of \$193,369, or
20 31.83 percent, from \$607,570 to \$800,939, to be phased-in over three years. At the end of the phase-
21 in, the proposed revenue increase would produce an operating loss of \$359,141 for no rate of return
22 on an OCRB of \$3,294,872.

23 88. Staff agreed that even though the proposed increase would result in an operating loss,
24 because the Company has expressed the desire to continue to subsidize its customers, Staff has
25 determined that the proposed revenue increase is fair and reasonable.⁴¹

26 89. The only dispute between the Company and Staff involving the requested increase for
27 the Morenci Water System involves rate design -- specifically, the cost of the first tier of usage, and

28 ⁴¹ Tr at 71-73.

the monthly customer charge.⁴² The current rates for MWE's Morenci system and the proposed rates are as follows:

	Present Rates	Company Phase 1	Company Phase 2	Company Phase 3	Staff Phase 1	Staff Phase 2	Staff Phase 3
MONTHLY CHARGE:							
5/8" x 3/4" Meter	\$10.00	\$9.25	\$10.25	\$11.20	\$9.50	\$9.75	\$10.00
1" Meter	10.00	\$10.50	11.60	12.70	10.50	10.75	11.00
1-1/2" Meter	10.00	\$20.00	22.15	24.20	26.25	26.50	26.75
2" Meter	10.00	\$25.00	27.70	30.25	42.75	43.00	43.25
3" Meter	10.00	\$35.00	38.75	42.35	67.75	68.00	68.25
4" Meter	10.00	\$50.00	55.35	60.50	87.75	88.00	88.25
6" Meter	10.00	\$75.00	83.00	90.75	147.75	148.00	148.25
COMMODITY CHARGE:							
Excess of Minimum (per 1,000 gallons)							
Gallons included in minimum	3,000	0	0	0	0	0	0
Commodity Charge (per 1,000 gal.):							
All meter Sizes (for amount over 3,000 gal)	\$1.94						
5/8" x 3/4 " & 3/4" Meters (per 1,000 gal)							
0-3,000 gallons		\$1.05	\$1.16	\$1.27	\$0.85	\$0.85	\$0.85
3,001-8,000 gallons		1.65	1.83	2.00	1.60	1.69	2.27
Over 8,000 gallons		2.18	2.41	2.64	2.18	2.27	2.85
1" Meters (per 1,000 gallons)							
0-3,000 gallons		\$1.05	\$1.16	\$1.27	\$0.85	\$0.85	\$0.85
3,001- 8,000 gallons		1.65	1.83	2.00	\$1.60	\$1.69	\$2.27
Over 8,000 gallons		2.18	2.41	2.64	\$2.18	\$2.27	\$2.85
1-1/2 " Meters (per 1,000 gallons)							
0-3,000 gallons		\$1.05	\$1.16	\$1.27	\$0.85	\$0.85	\$0.85
3,001-37,000 gallons		1.65	1.83	2.00	\$1.60	\$1.69	\$2.27
Over 37,000 gallons		2.18	2.41	2.64	\$2.18	\$2.27	\$2.85
2" Meters (per 1,000 gallons)							
0-3,000 gallons		\$1.05	\$1.16	\$1.27	\$0.85	\$0.85	\$0.85
3,001 – 65,000 gallons		1.65	1.83	2.00	\$1.60	\$1.69	\$2.27
Over 65,000 gallons		2.18	2.41	2.64	\$2.18	\$2.27	\$2.85
3" Meters (per 1,000 gallons)							
0-3,000 gallons		\$1.05	\$1.16	\$1.27	\$0.85	\$0.85	\$0.85
3,001-108,000 gallons		1.65	1.83	2.00	\$1.60	\$1.69	\$2.27
Over 108,000 gallons		2.18	2.41	2.64	\$2.18	\$2.27	\$2.85
4" Meters (per 1,000 gallons)							
0-3,000g gallons		\$1.05	\$1.16	\$1.27	\$0.85	\$0.85	\$0.85
3,001-142,000 gallons		1.65	1.83	2.00	\$1.60	\$1.69	\$2.27
Over 142,000 gallons		2.18	2.41	2.64	\$2.18	\$2.27	\$2.85
6" Meters (per 1,000 gallons)							
0-3,000 gallons		\$1.05	\$1.16	\$1.27	\$0.85	\$0.85	\$0.85
3,001-245,000		1.65	1.83	2.00	\$1.60	\$1.69	\$2.27
Over 245,000		2.18	2.41	2.64	\$2.18	\$2.27	\$2.85
Industrial Water Sales (per 1,000 gallons)	\$0.50	\$0.55	\$0.6050	\$0.6655	\$0.55	\$0.6050	\$0.6655

⁴² Compare Ex A-7 Neidlinger Rj at DLN-1 with Ex S-6 Erdworm Surr at DBE-5-S.

SERVICE LINE AND METER INSTALLATION CHARGE

(Refundable Pursuant to A.A.C. R14-2-405)

	Company Proposed and Staff Recommended Service Line Charges	Company Proposed and Staff Recommended Meter Charges	Company Proposed and Staff Recommended Total Charges
Meter Size			
5/8 x 3/4 inch	\$ 370	\$ 130	\$ 500
3/4 inch	370	205	575
1 inch	420	240	660
1-1/2 inch	450	450	900
2 inch	580	945	1,525
3 inch	745	1,420	2,165
4 inch	1,090	2,270	3,360
6 inch	1,610	4,425	6,035
Over 6 inch	At Cost	At Cost	At Cost

SERVICE CHARGES:

Description	Current Rate	Company Proposed	Staff Recommended
Establishment of Service:			
Regular Hours	\$60.00	\$60.00	\$40.00
After Hours	\$60.00	\$60.00	\$40.00
Re-establishment of Service			
Monthly minimum time months disconnected (minimum 3 months)	\$30.00	\$30.00	**
Reconnection of Service:			
Regular Hours	\$10.00	\$30.00	\$30.00
After Hours	\$160.00	\$50.00	\$50.00
Charge for moving meter at customer request	Cost	Cost	Cost
Customer Requested Meter Test (if meter is accurate)	Cost	Cost	Cost
Customer Requested Re- Read (if correct)	\$10.00	\$25.00	\$25.00
NSF Check	\$10.00	\$25.00	\$25.00
Late Charge	1.5% per month	1.5% per month	1.5% per month
Deposit Requirement	Per Rule	Per Rule	*
Interest on Customer Deposits	6%	2%	2%

* Per Commission Rule A.A.C. R14-2-403(B)

** Months off system times the monthly minimum per Commission Rules A.A.C. R14-2-403(D)

90. Initially, the Company proposed to eliminate the 3,000 gallons of usage that is currently included with the monthly minimum over the three year phase-in, and proposed a two tiered design.⁴³ Staff concurred that eliminating the "free usage" sends a more efficient pricing signal, and

⁴³ The Company originally proposed to eliminate the 3,000 gallons of "free usage" over the phase-in period, but in rejoinder testimony, agreed to adopt Staff's position that eliminates the "free usage" immediately. In addition, in rejoinder, MWE agreed to Staff's proposed tier break-over points. Ex A-7 Neidlinger Rj at 2.

1 Staff proposed a three tiered rate structure, which incorporated tiers that started at lower usage point
2 than proposed by the Company. By the time of the hearing, MWE had agreed to Staff's rate design
3 (including the tier break points) for the Morenci system, except that the Company believed that
4 Staff's first tier rate was too low, as it did not cover the cost of treating and delivering water to the
5 Morenci system.⁴⁴ The Company also objected to Staff's design because the first tier rate does not
6 increase over the phase-in.⁴⁵ The Company noted that there is no Cost of Service Study and thus, no
7 reason why one meter size ought to receive a larger or smaller increase than another. The Company
8 believes that it is unfair that under Staff's rate design, the 5/8 inch meter class receives only a 28
9 percent increase at the end of three years when the overall increase is 35 percent.⁴⁶

10 91. Staff argued that a relatively low first tier price avoids "rate shock" for the smallest
11 users, and that any changes to the basic service charges, tier sizes or price differential would be
12 "contrary to cost-based rate making."⁴⁷ Staff proposed that the 8,000 gallons allocated to the
13 combined first two tiers for the 5/8 inch meters approximates the average usage for 5/8 inch meter
14 customers. Staff states that basic service charges, block sizes and price differentials are interrelated
15 and that maintaining basic service charges and/or tier sizes at Staff's recommended levels necessarily
16 dictates that tier sizes and price differentials also be maintained. Staff also states that its
17 recommended tier sizes and price differentials have been coordinated to eliminate opportunities for a
18 customer to "game the system" and request an unnecessarily large meter solely to be able to purchase
19 more gallons at a lower price per unit.⁴⁸ In designing its recommended rates, Staff states it also
20 considered sending price signals that would encourage the efficient use of water, cost-of-service, the
21 ability of customers to understand the rate design, usage trends, potential impacts of the rate design
22 on the Company, and the matching of revenue generated and costs incurred to provide service,
23 customer impacts, and the ability of low-income and fixed-income customers to afford a level of
24 service sufficient for basic needs.

25 92. Under Staff's proposed rates, the median 5/8 inch meter customer, using 5,000 gallons

26 ⁴⁴ Tr. at 36-37.

27 ⁴⁵ Tr. at 39.

⁴⁶ Tr. at 40. See also Ex A-7 Neidlinger Rj at DLN-2.

28 ⁴⁷ Ex S-6 Erdwurm Surr at 3.

⁴⁸ Es S-6 Erdwurm Surr at 3.

1 a month, would see an increase of \$1.36, or 9.8 percent, from \$13.88 to \$15.24 in phase 1; an
2 increase to \$16.22 in phase 2, which is \$2.34, or 16.84 percent, higher than current rates, and \$0.98,
3 or 6.42 percent, more than phase 1 rates; and a bill of \$17.08 in phase 3, which is \$3.20, or 23.05
4 percent, higher than current rates, and \$0.86, or 5.32 percent, higher than phase 2 rates.⁴⁹

5 93. Under the Company's proposed rates, the median 5/8 inch meter customer, using
6 5,000 gallons a month, would see an increase of \$1.82, or 13.1 percent, from \$13.88 to \$15.70 in
7 phase 1; an increase to \$17.39 in phase 2, which is \$3.51, or 25.3 percent, higher than current rates,
8 and \$1.69, or 10.76 percent, over phase 1 rates; and a bill of \$19.01 in phase 3, which is \$5.13, or
9 36.9 percent, higher than current rates, and \$1.62, or 9.3 percent, higher than phase 2 rates.

10 94. Either proposed rate design represents a significant departure from the current rates
11 under which all meter sizes pay the same monthly charge and a flat rate for all water used, in addition
12 to 3,000 gallons being included in the monthly charge. We find the Company's proposal to be
13 reasonable and will approve it for the Morenci system customers.

14 **Clifton Water System - Rates**

15 95. In its Application, MWE reported a rate base of \$585,414 for its Clifton system. Staff
16 made no rate base adjustments. The Company requested that its OCRB be treated as its FVRB. Thus,
17 we find that the Clifton Water System's FVRB is \$585,414.

18 96. The Company reported test year operating expenses of \$283,647 for its Clifton
19 system. Staff made three adjustments to operating expenses, totaling \$25,734, which increased water
20 testing by \$4,236, decreased property tax expense by \$390 and decreased income tax expense by
21 \$4,788. The Company did not object.

22 97. Staff's adjustments are reasonable. Thus, in the test year, MWE's Clifton Water
23 System had an operating loss of \$96,178, for no return on FVRB.

24 98. For the Clifton system, MWE proposed a \$65,049, or 33.19 percent revenue increase
25 from \$196,004 to \$261,053. The proposed revenue increase would produce an operating loss of
26 \$47,711, for no rate of return on an FVRB of \$585,414.

27 99. There are no disputes between the Company and Staff over the rates for the Clifton

28 ⁴⁹ Ex S-6 Erdwurm Surr at DBE-5.

1 system. The current Clifton system's rates and those proposed by the Company and Staff are as
 2 follows:

	Present Rates	Company Phase 1	Company Phase 2	Company Phase 3	Staff Phase 1	Staff Phase 2	Staff Phase 3
MONTHLY USAGE CHARGE							
5/8" x 3/4" Meter	10.00	\$9.50	9.75	10.00	\$9.50	\$9.75	\$10.00
1" Meter	10.00	10.50	10.75	11.00	10.50	10.75	11.00
1-1/2" Meter	10.00	26.35	26.50	26.75	26.35	26.50	26.75
2" Meter	10.00	42.75	43.00	43.00	42.75	43.00	43.25
3" Meter	10.00	67.75	68.00	68.25	67.75	68.00	68.25
4" Meter	10.00	87.75	88.00	88.25	87.75	88.00	88.25
6" Meter	N/A	147.75	148.00	148.25	147.75	148.00	148.25
Gallons included in minimum	3,000	0	0	0	0	0	0
Commodity Charge (per 1,000 gal.):							
All meter Sizes (for amount over 3,000 gal)	\$1.63						
5/8" x 3/4 " & 3/4" Meters (per 1,000 gal)							
0-3,000 gallons		\$0.85	\$0.85	\$0.85	\$0.85	\$0.85	\$0.85
3,001-8,000 gallons		\$1.36	\$1.69	\$2.03	\$1.36	\$1.69	\$2.03
Over 8,000 gallons		\$1.94	\$2.27	\$2.61	\$1.94	\$2.27	\$2.61
1" Meters (per 1,000 gallons)							
0-3,000 gallons		\$0.85	\$0.85	\$0.85	\$0.85	\$0.85	\$0.85
3,001- 8,000 gallons		\$1.36	\$1.69	\$2.03	\$1.36	\$1.69	\$2.03
Over 8,000 gallons		\$1.94	\$2.27	\$2.61	\$1.94	\$2.27	\$2.61
1 1/2 " Meters (per 1,000 gallons)							
0-3,000 gallons		\$0.85	\$0.85	\$0.85	\$0.85	\$0.85	\$0.85
3,001-37,000 gallons		\$1.36	\$1.69	\$2.03	\$1.36	\$1.69	\$2.03
Over 37,000 gallons		\$1.94	\$2.27	\$2.61	\$1.94	\$2.27	\$2.61
2" Meters (per 1,000 gallons)							
0-3,000 gallons		\$0.85	\$0.85	\$0.85	\$0.85	\$0.85	\$0.85
3,001 - 65,000 gallons		\$1.36	\$1.69	\$2.03	\$1.36	\$1.69	\$2.03
Over 65,000 gallons		\$1.94	\$2.27	\$2.61	\$1.94	\$2.27	\$2.61
3" Meters (per 1,000 gallons)							
0-3,000 gallons		\$0.85	\$0.85	\$0.85	\$0.85	\$0.85	\$0.85
3,001-108,000 gallons		\$1.36	\$1.69	\$2.03	\$1.36	\$1.69	\$2.03
Over 108,000 gallons		\$1.94	\$2.27	\$2.61	\$1.94	\$2.27	\$2.61
4" Meters (per 1,000 gallons)							
0-3,000g gallons		\$0.85	\$0.85	\$0.85	\$0.85	\$0.85	\$0.85
3,001-142,000 gallons		\$1.36	\$1.69	\$2.03	\$1.36	\$1.69	\$2.03
Over 142,000 gallons		\$1.94	\$2.27	\$2.61	\$1.94	\$2.27	\$2.61
6" Meters (per 1,000 gallons)							
0-3,000 gallons		\$0.85	\$0.85	\$0.85	\$0.85	\$0.85	\$0.85
3,001-245,000		\$1.36	\$1.69	\$2.03	\$1.36	\$1.69	\$2.03
Over 245,000		\$1.94	\$2.27	\$2.61	\$1.94	\$2.27	\$2.61

24 SERVICE LINE AND METER INSTALLATION CHARGE

(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Company Proposed and Staff Recommended Service Line Charges	Company Proposed and Staff Recommended Meter Charges	Company Proposed and Staff Recommended Total Charges
5/8 x 3/4 inch	\$ 370	\$ 130	\$ 500
3/4 inch	370	205	575
1 inch	420	240	660

1	1-1/2 inch	450	450	900
2	2 inch	580	945	1,525
3	3 inch	745	1,420	2,165
4	4 inch	1,090	2,270	3,360
5	6 inch	1,610	4,425	6,035
6	Over 6 inch	At Cost	At Cost	At Cost

SERVICE CHARGE

7	Description	Current Rate	Company Proposed	Staff Recommended
8	Establishment of Service:			
9	Regular Hours	\$60.00	\$60.00	\$40.00
10	After Hours	\$60.00	\$60.00	\$40.00
11	Re-establishment of Service			
12	Monthly minimum time	\$30.00	\$30.00	**
13	months disconnected			
14	(minimum 3 months)			
15	Reconnection of Service			
16	Regular Hours	\$10.00	\$30.00	\$30.00
17	After Hours	\$160.00	\$50.00	\$50.00
18	Charge for moving meter	Cost	Cost	Cost
19	at customer request			
20	Customer Requested Meter	Cost	Cost	Cost
21	Test (if meter is accurate)			
22	Customer Requested Re-	\$10.00	\$25.00	\$25.00
23	Read (if correct)			
24	NSF Check	\$10.00	\$25.00	\$25.00
25	Late Charge	1.5% per month	1.5% per month	1.5% per month
26	Deposit Requirement	Per Rule	Per Rule	*
27	Interest on Customer	6%	2%	2%
28	Deposits			

* Per Commission Rule A.A.C. R14-2-403(B)

** Months off system times the monthly minimum per Commission Rules A.A.C. R14-2-403(D)

100. The Company agreed to Staff's recommended rates for the Clifton system because although the Company does not believe that the first tier rate fully covers the cost of the water, the Clifton system has a lower cost than the Morenci system, and the Company finds that \$0.85 per 1,000 gallons is acceptable.⁵⁰

101. Under the rates recommended by Staff, and agreed to by the Company, the monthly bill for the median 5/8-inch meter customer using 4,800 gallons would increase \$1.57, or 12.1 percent, from \$12.93 under current rates to \$14.50 in phase 1; in phase 2, the median bill would increase to \$15.34, an increase of \$0.84, or 5.8 percent, over phase 1 rates, and \$2.41, or 18.6 percent over current rates; in phase 3 the median bill would increase to \$16.20, an increase of \$0.86 or 5.6

⁵⁰ Tr. at 41.

percent, over phase 2 rates, and \$3.27, or 25.3 percent, higher than current rates.

102. Although the proposed rates are designed to yield an operating loss for the Clifton Water System, under the totality of circumstances, we find that the proposed rates are fair and reasonable and should be adopted.

CONCLUSIONS OF LAW

1. MWE is a public service corporation pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over MWE and the subject matter of the Application.

3. Notice of the Application was provided in conformance with law.

4. MWE's FVRB on a Company-wide basis is \$23,872,439, broken down between its divisions as follows: Electric Division, \$19,992,153; Morenci Water System, \$3,294,872; and Clifton Water System, \$585,414.

5. The rates, charges and conditions of service approved herein are just and reasonable and in the public interest.

ORDER

IT IS THEREFORE ORDERED that Morenci Water and Electric Company is hereby authorized and directed to file with Docket Control, as a compliance item in this Docket, within thirty (30) days of the effective date of this Decision, revised tariffs setting forth the following rates and charges:

ELECTRIC DIVISION

Residential

Basic Service Charge	\$5.50
Base Cost of Purchased Power per kWh	\$0.05000
Distribution Cost per kWh	\$0.02628

Small Commercial

Basic Service Charge	\$5.50
Base Cost of Purchased Power per kWh	\$0.05000
Distribution Cost per kWh	\$0.02628

Large Commercial (>60,000 kWh per yr):

Basic Service Charge	\$35.00
Base Cost of Purchased Power per kWh	\$0.07522
Distribution Cost per kWh	\$0.02628

SERVICE CHARGES:**Establishment of Service**

Regular Hours	\$40.00
After Hours	\$50.00

Re-Establishment of Service:

Monthly Minimum times months discounted (minimum 3 months)	**
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Re-connection of Service:

Regular Hours	\$30.00
After Hours	\$50.00

Charge for moving meter at customer request Cost

Customer Requested Meter Test (if Meter Accurate) Cost

Customer Requested Re-Read (if correct) \$25.00

NSF Check \$25.00

Late Charge 1.5% per month

Deposit Requirement Per Rule

Interest on Customer Deposits 2%

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

MORENCI WATER SYSTEM**Phase 1****Phase 2****Phase 3****MONTHLY CHARGE:**

5/8" x 3/4" Meter	\$9.25	\$10.25	\$11.20
1" Meter	10.50	11.60	12.70
1-1/2" Meter	20.00	22.15	24.20
2" Meter	25.00	27.70	30.25
3" Meter	35.00	38.75	42.35
4" Meter	50.00	55.35	60.50
6" Meter	75.00	83.00	90.75

COMMODITY CHARGE (Per 1,000 Gallons) :**5/8" x 3/4" & 3/4" Meters**

0 - 3,000 gallons	\$1.05	\$1.16	\$1.27
3,001 - 8,000 gallons	1.65	1.83	2.00
Over 8,000 gallons	2.18	2.41	2.64

1" Meters

0 - 3,000 gallons	\$1.05	\$1.16	\$1.27
3,001 - 8,000 gallons	1.65	1.83	2.00
Over 8,000 gallons	2.18	2.41	2.64

1-1/2" Meters

0 - 3,000 gallons	\$1.05	\$1.16	\$1.27
3,001 - 37,000 gallons	1.65	1.83	2.00
Over 37,000 gallons	2.18	2.41	2.64

2" Meters

0 - 3,000 gallons	\$1.05	\$1.16	\$1.27
3,001 - 65,000 gallons	1.65	1.83	2.00
Over 65,000 gallons	2.18	2.41	2.64

3" Meters

0 - 3,000 gallons	\$1.05	\$1.16	\$1.27
3,001 - 108,000 gallons	1.65	1.83	2.00
Over 108,000 gallons	2.18	2.41	2.64

4" Meters

0 - 3,000g gallons	\$1.05	\$1.16	\$1.27
3,001 - 142,000 gallons	1.65	1.83	2.00
Over 142,000 gallons	2.18	2.41	2.64

6" Meters

0 - 3,000 gallons	\$1.05	\$1.16	\$1.27
3,001 - 245,000	1.65	1.83	2.00
Over 245,000	2.18	2.41	2.64

Industrial Water Sales (per 1,000 gallons)	\$0.55	\$0.6050	\$0.6655
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SERVICE LINE AND METER INSTALLATION CHARGES

(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Service Line Charges	Meter Charges	Total Charges
5/8 x 3/4 Inch	\$ 370	\$ 130	\$ 500
3/4 Inch	370	205	575
1 inch	420	240	660
1-1/2 Inch	450	450	900
2 Inch	580	945	1,525
3 Inch	745	1,420	2,165
4 Inch	1,090	2,270	3,360
6 Inch	1,610	4,425	6,035
Over 6 Inch	At Cost	At Cost	At Cost

SERVICE CHARGES:**Establishment of Service**

Regular Hours	\$40.00
After Hours	\$50.00

Re-Establishment of Service:

Monthly Minimum times months discounted (minimum 3 months)	**
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Re-connection of Service:

Regular Hours	\$30.00
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1	After Hours	\$50.00
	Charge for moving meter at customer request	Cost
2	Customer Requested Meter Test (if Meter Accurate)	Cost
3	Customer Requested Re-Read (if correct)	\$25.00
	NSF Check	\$25.00
4	Late Charge	1.5% per month
	Deposit Requirement	Per Rule
5	Interest on Customer Deposits	2%

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

<u>CLIFTON WATER SYSTEM</u>		<u>Phase 1</u>	<u>Phase 2</u>	<u>Phase3</u>
MONTHLY CHARGE				
9	5/8" x 3/4" Meter	\$ 9.50	\$ 9.75	\$ 10.00
	1" Meter	10.50	10.75	11.00
10	1-1/2" Meter	26.35	26.50	26.75
	2" Meter	42.75	43.00	43.25
11	3" Meter	67.75	68.00	68.25
	4" Meter	87.75	88.00	88.25
12	6" Meter	147.75	148.00	148.25
COMMODITY CHARGE (Per 1,000 Gallons) :				
14	5/8" x 3/4" & 3/4" Meters			
	0 – 3,000 gallons	\$ 0.85	\$ 0.85	\$ 0.85
15	3,001 – 8,000 gallons	1.36	1.69	2.03
16	Over 8,000 gallons	1.94	2.27	2.61
17	1" Meters			
	0 – 3,000 gallons	\$ 0.85	\$ 0.85	\$ 0.85
18	3,001 – 8,000 gallons	1.36	1.69	2.03
19	Over 8,000 gallons	1.94	2.27	2.61
20	1 1/2" Meters			
	0 – 3,000 gallons	\$ 0.85	\$ 0.85	\$ 0.85
21	3,001 – 37,000 gallons	1.36	1.69	2.03
22	Over 37,000 gallons	.94	2.27	2.61
23	2" Meters			
	0 – 3,000 gallons	\$ 0.85	\$ 0.85	\$ 0.85
24	3,001 – 65,000 gallons	1.36	1.69	2.03
25	Over 65,000 gallons	1.94	2.27	2.61
26	3" Meters			
	0 – 3,000 gallons	\$ 0.85	\$ 0.85	\$ 0.85
27	3,001 – 108,000 gallons	1.36	1.69	2.03
28	Over 108,000 gallons	1.94	2.27	2.61

4" Meters

0 – 3,000g gallons	\$ 0.85	\$ 0.85	\$ 0.85
3,001 – 142,000 gallons	1.36	1.69	2.03
Over 142,000 gallons	1.94	2.27	2.61

6" Meters

0 – 3,000 gallons	\$ 0.85	\$ 0.85	\$ 0.85
3,001 – 245,000	1.36	1.69	2.03
Over 245,000	1.94	2.27	2.61

SERVICE LINE AND METER INSTALLATION CHARGES

(Refundable Pursuant to A.A.C. R14-2-405)

Meter Size	Service Line Charges	Meter Charges	Total Charges
5/8 x 3/4 Inch	\$ 370	\$ 130	\$ 500
3/4 Inch	370	205	575
1 inch	420	240	660
1-1/2 Inch	450	450	900
2 Inch	580	945	1,525
3 Inch	745	1,420	2,165
4 Inch	1,090	2,270	3,360
6 Inch	1,610	4,425	6,035
Over 6 Inch	At Cost	At Cost	At Cost

SERVICE CHARGES:**Establishment of Service**

Regular Hours \$40.00

After Hours \$50.00

Re-Establishment of Service:Monthly Minimum times months discounted
(minimum 3 months) ****Re-connection of Service:**

Regular Hours \$30.00

After Hours \$50.00

Charge for moving meter at customer request Cost

Customer Requested Meter Test Cost

(if Meter Accurate)

Customer Requested Re-Read (if correct) \$25.00

NSF Check \$25.00

Late Charge 1.5% per month

Deposit Requirement Per Rule

Interest on Customer Deposits 2%

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for

1 all usage on and after March 1, 2013. For the water systems, Phase 1 rates shall be effective for all
2 usage on and after March 1, 2013, phase 2 rates shall be effective for all usage on and after March` 1,
3 2014, and phase 3 rates shall be effective for all usage on and after March 1, 2015.

4 IT IS FURTHER ORDERED that Morenci Water and Electric Company shall notify its
5 customers of the revised schedules of rates and charges authorized herein, by means of an insert, in a
6 form acceptable to Staff, included in its next regularly scheduled billing or as a separate mailing to be
7 completed no later than twenty (20) days after the effective date of this Order.

8 IT IS FURTHER ORDERED that in addition to its regular rates and charges, Morenci Water
9 and Electric Company shall collect from its customers a proportionate share of any privilege, sales or
10 use tax per A.A.C. R14-2-409(D).

11 IT IS FURTHER ORDERED that the Plan of Administration for Morenci Water and Electric
12 Company's Purchased Power and Fuel Adjustor Clause, attached hereto as Exhibit A, is approved,
13 and that Morenci Water and Electric Company's initial Purchased Power and Fuel Adjustor rate shall
14 be negative \$0.00927 per kWh, until it resets according to the Plan of Administration or upon further
15 Order of the Commission.

16 IT IS FURTHER ORDERED that adjustor mechanisms that comport with the terms of the
17 RESS and EE Tariffs for Morenci Water and Electric Company shall henceforth replace these tariffs,
18 and Morenci Water and Electric shall file with Docket Control as a compliance item, within 60 days
19 of the effective date of this Order, Plans of Administration for these adjustors for Commission Staff
20 review and approval.

21 IT IS FURTHER ORDERED that Morenci Water and Electric Company shall establish an
22 Energy Efficiency bank balance to track Energy Efficiency costs and collections under its Energy
23 Efficiency Adjustor mechanism and that the Energy Efficiency bank balance shall be reported in each
24 Energy Efficiency Implementation Plans that Morenci Water and Electric Company files.

25 IT IS FURTHER ORDERED that the BMP Tariffs chosen by Morenci Water and Electric
26 Company and discussed herein are approved and Morenci Water and Electric Company shall file
27 with Docket Control, as a compliance item in this docket within 30 days of the effective date of this
28 Order, copies of those tariffs.

1 IT IS FURTHER ORDERED that on a going-forward basis, Morenci Water and Electric
2 Company shall use the depreciation rates by individual National Association of Regulatory Utility
3 Commissioners category as delineated in Table B of Exhibit JWL in the direct testimony of Jian Liu.

4 IT IS FURTHER ORDERED that Morenci Water and Electric Company provide separate
5 water use data sheets for the Morenci and Clifton Water Systems in future Commission Annual
6 Reports beginning with the 2013 Annual Report filed in 2014; that the Morenci Water and Electric
7 Company monitor the gallons pumped and sold in order to determine the non-account water for each
8 of its water systems; that if the reported annual water loss is greater than 10 percent, Morenci Water
9 and Electric Company shall prepare a report containing a detailed analysis and plan to reduce water
10 loss to 10 percent or less; and that if the Company believes it is not cost effective to reduce the water
11 loss to less than 10 percent, it should submit a detailed cost/benefit analysis to support its opinion.

12 IT IS FURTHER ORDERED that the Cross-Connection or Backflow and Curtailment Tariffs
13 filed by Morenci Water and Electric Company on July 17, 2012, and attached to Jian Liu's direct
14 testimony as Exhibit A, be approved.

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IT IS FURTHER ORDERED that Morenci Water and Electric Company shall maintain its books and records in conformance with Guidelines adopted by the National Association of Regulatory Utility Commissioners and/or the Federal Energy Regulatory Commission.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

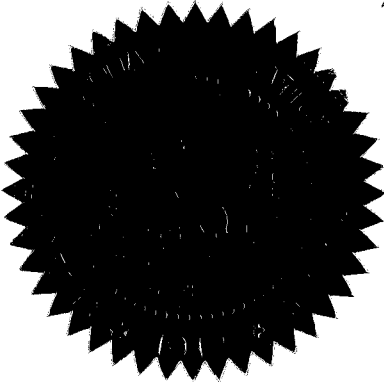
CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 20th day of February 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR:

MORENCI WATER AND ELECTRIC COMPANY

2
3 DOCKET NOS.:

E-01049A-11-0300 and W-01049A-11-0311

4 Michael W. Patten, Esq.

5 Jason D. Gellman

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1200 W. Washington Street

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***Morenci Water and Electric Company ("MWE")
Purchased Power and Fuel Adjustment Clause
Plan of Administration***

1. General description.

This document describes the plan for administering the Purchased Power and Fuel Adjustment Clause ("PPFAC") the Arizona Corporation Commission ("Commission") approved for Morenci Water and Electric Company, Inc. ("MWE") in Decision No. XXXXX dated February XX, 2013. The PPFAC provides for the recovery of purchased power costs from the effective date of that decision forward.

The PPFAC described in this Plan of Administration ("POA") uses a forward-looking estimate of purchased power costs to set a rate that is then reconciled to actual costs. This POA describes the application of the PPFAC.

The PPFAC only applies to non-mining customers in MWE's service territory. It does not apply to MWE special contract sales to mining operations in Morenci or Safford.

2. Definitions.

Base Cost of Purchased Power - An amount generally expressed as a rate per kWh, which reflects the purchased power cost embedded in the base rates as approved by the Commission in MWE's most recent rate case. Decision No. XXXXX set the Base Cost of Purchased Power at \$0.05000 per kWh effective on XXXXX.

Forward Component - An amount expressed as a rate per kWh charge that is updated semi-annually on June 1 and December 1 of each year and effective with the first billing cycles in June and December respectively. The Forward Component for the PPFAC Period equals the forecasted purchased power costs (expressed as a rate per kWh), less the Base Cost of Purchased Power (expressed as a rate per kWh). The difference between the forecasted purchased power costs and the Base Cost of Purchased Power will be the Forward Component.

PPFAC - The Purchased Power and Fuel Adjustment Clause approved by the Commission in Decision No. XXXXX is a combination of two rate components, the Forward and True-Up Components, which track changes in the cost of obtaining power supplies. The PPFAC is based upon forward-looking estimates of purchased power costs adjusted to reflect the true-up of estimated and actual purchased power costs from previous PPFAC Periods.

PPFAC Period - A consecutive six-month period beginning: (1) each June 1 and lasting through November 30 in the same year; and (2) each December 1 and lasting through May 31 of the following year.

Purchased Power Costs - The costs recorded for purchased power used by MWE to serve its non-mining customers within its service territory after adjusting for the purchased power costs needed to serve special contract customers.

True-Up Component - An amount expressed as a rate per kWh charge that is updated semi-annually on: (1) June 1 of each year and effective with the first billing cycle in June; and (2) December 1 of each year and effective with the first billing cycle in December. The purpose of this charge is to reconcile any over- or under-recovered amounts from the preceding PPFAC Period.

3. PPFAC Components.

The PPFAC Rate will consist of the sum of two components designed to provide for the recovery of actual and prudently incurred purchased power costs. Those components are:

- The Forward Component, which recovers or refunds the difference between forecasted purchased power costs and the power cost embedded in base rates for the upcoming PPFAC Period (either June 1 through November 30 of the same year; or December 1 through May 31 of the following year).
- The True-Up Component, which tracks the difference between the preceding PPFAC Period's actual purchased power costs and those costs recovered through the combination of base rates and the Forward Component. The True-Up Component provides for recovery of under-collections and return of over-collections.

The first full PPFAC Period in which the PPFAC rate shall apply will begin on June 1, 2013. Succeeding PPFAC Periods will begin on each June 1 and December 1 thereafter.

Each April 15 (for the PPFAC Period from June 1 through November 30) and October 15 (for the PPFAC Period from December 1 through the following May 31), MWE will submit to Docket Control a PPFAC Rate filing, which shall include a proposed calculation of the components for the PPFAC Rate. This filing shall be accompanied by supporting information as Staff determines to be required.

A. Forward Component description.

The Forward Component is intended to refund or recover the difference between: (1) the forecasted purchased power costs over the PPFAC Period; and (2) the purchased power costs embedded in base rates. MWE will submit, at least 45 days before the new PPFAC Rate is implemented (on June 1 or December 1 of each year), a forecast of its purchased power costs for the upcoming six-month PPFAC Period. It will also submit a forecast of kWh sales for the same PPFAC Period, and divide the forecasted costs by the forecasted sales to produce the rate per kWh required to collect those costs over the six-month period. This result less the Base Cost of Purchased Power will be the Forward Component.

Monthly variances from forecasted power costs will be tracked on Schedule PPFAC 5 appended to the semi-annual filings.

B. True-Up Component description.

The True-Up Component in any current PPFAC Period is intended to refund or recover the balance shown on the Bank Balance Report FA-1.¹

- For the PPFAC Period from June 1 through November 30 of the same year, the FA-1 balance at April 1 would roll over into the True-Up Component for the PPFAC period starting December 1.
- For the PPFAC Period from December 1 through the following May 31, the FA-1 balance at October 1 would roll over into the True-Up Component for the coming PPFAC period starting June 1.

As previously mentioned, the semi-annual PPFAC adjustor reports will provide detail on Schedule PPFAC-5 that tracks monthly variances between actual and forecasted purchased power costs.

Calculation of the PPFAC Rate.

The PPFAC rate is the sum of the two components – the Forward Component and True-Up Component. The PPFAC rate shall be applied to customer bills. Unless the Commission has otherwise acted on a new PPFAC rate by May 31 (for the April 15 filing covering the June 1 through November 30 PPFAC Period) and November 30 (for the October 15 covering the December 1 to the following May 31 PPFAC Period), the proposed PPFAC rate shall go into

¹ The Bank Balance Report FA-1 is included in the monthly Purchased Power and Fuel Adjustor reports

effect on June 1 and December 1, respectively. The PPFAC rate shall apply to MWE's residential and other non-mining retail electric customers and is adjusted semi-annually. The PPFAC Rate shall be applied to the customer's bill as a monthly kilowatt-hour ("kWh") charge that is the same for all non-mining customer classes. The PPFAC does not apply to MWE sales to mining operations at Morenci and Safford, as those are covered by special contracts approved by the Commission in Decision Nos. 66937 (April 21, 2004) and 69200 (December 21, 2006).

In accordance with Decision No. XXXXX, the revised PPFAC rate for any semi-annual period cannot be increased by an amount exceeding \$0.00400 per kWh. There are no restrictions on semi-annual PPFAC decreases.

The PPFAC rate shall be reset twice per year: on June 1 and December 1, and shall be effective with the first June billing cycle and December billing cycle respectively, unless otherwise ordered by the Commission. It is not prorated.

5. Filing and procedural deadlines.

A. April 15 and October 15 Filings.

MWE shall file the PPFAC rate with all component calculations for each upcoming PPFAC Period on April 15 and October 15 of each year, and include supporting data. That calculation shall use a forecast of kWh sales and purchased power costs for the upcoming six-month period, with inputs and assumptions being the most current available for the Forward Component. The filing will also include the True-Up Component calculation for upcoming six-month period, with supporting data. Such True-Up Component calculation will use the same forecast of sales used for the Forward Component calculation. These filings will include bill impacts on residential customers of any proposed increase or decrease in the PPFAC Rate.

B. Additional Filings.

The MWE will continue to file with the Compliance Section its Purchased Power and Fuel Adjustor reports each month. If requested by Staff, MWE will update its April 15 and October 15 filings with revised forecasts and calculations. These updates may replace estimated Forward Component Tracking Account balances, and the True-Up Component Tracking Account balances, with actual balances and with more current estimates for those months for which actual data are not available. The new PPFAC rate will go into effect each June 1 and December 1 unless otherwise ordered by the Commission. MWE will also file with the Commission any additional information that the Staff determines it requires to verify the component calculations, account balances, and any other matter pertinent to the PPFAC.

C. Review Process.

The Commission Staff and interested parties will have an opportunity to review the MWE filings submitted April 15 and October 15, including the forecasts, balances, and supporting data on which the calculations of the two PPFAC components have been based. Any objections to the calculations must be filed within 30 days of the MWE filing.

D. Extraordinary Circumstances.

Should an unusual event occur that causes a drastic change in forecasted energy prices – such as a hurricane or other calamity – MWE will have the ability to request an adjustment to the forward component reflecting such a change, subject to Commission approval. The Commission may provide for the change over such period as the Commission determines appropriate.

E. An Under-collected Balance Not Resolved Through PPFAC Period Resets.

If MWE develops an under-collection that is not resolved through the PPFAC Period Resets MWE will have the ability to file for an increase greater than that allowed by the cap. Such an increase would become effective after Commission review and approval.

6. Verification and audit.

The amounts charged through the PPFAC will be subject to periodic audit to assure its completeness and accuracy, and to assure that all purchased power costs were incurred reasonably and prudently. The Commission may, after notice and opportunity for hearing, make such adjustments to existing balances or to already recovered amounts as it finds necessary to correct any accounting or calculation errors, or to address any costs found to be unreasonable or imprudent. Such adjustments, with appropriate interest, shall be recovered or refunded in the True-Up Component for the following PPFAC Period.

7. Schedules.

The following schedules are attached to this Plan of Administration:

Schedule PPFAC 1 PPFAC Rate Calculation

Schedule PPFAC 2 PPFAC True-Up Component Calculation

Schedule PPFAC 3 PPFAC Forward Component Calculation

Schedule PPFAC 4 Forward Component Worksheet

Schedule PPFAC 5 Actual vs. Projected Purchased Power Cost

Schedule PPFAC 6 Frozen Bank Account Recovery Worksheet

8. Allowable costs.

A. Accounts.

The allowable PPFAC costs are those purchased power costs recorded in FERC Account No. 555. The accounting for purchased power costs is subject to change if FERC alters its accounting requirements or definitions.

B. Other Allowable Costs.

There are no other allowable costs without approval by order of the Commission.

9. Initial PPFAC Rate.

The initial PPFAC rate (from the effective date of Decision No. XXXXX until June 1, 2013) will be \$(0.00927) based on a Forecast Cost of Purchased Power equaling \$0.04073 and a Base Cost of Fuel and Purchased Power equaling \$0.05000. The True-Up Component will be set at \$0.00000 per kWh for this initial period.

10. Under-collected balance accrued through the effective date of Decision No. XXXXX.

For the under-collected Purchased Power and Fuel Adjustor Clause bank balance accrued through the effective date of Decision No. XXXXX (DATE), MWE will collect that amount through a separate Frozen Bank Surcharge, in effect for 24 months or until such time as the under-collected

bank balance is recovered. That Surcharge will equal \$0.00451 per kWh. Once that under-collected bank balance is fully recovered, this surcharge will no longer be in effect.